

Message Text

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PAGE 01 SAN JO 02006 162305Z

62

ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 SSO-00 NSCE-00 USIE-00 AID-05

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00

PA-01 PRS-01 SS-15 NSC-05 L-02 H-02 INRE-00 /073 W

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O 162225Z MAY 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC IMMEDIATE 0221

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DEPARTMENT ALSO PASS EXIM BANK

E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: FINANCIAL PROBLEMS OF LATIN AMERICAN
BANK AND GRUPO PROIN

REF: SAN JOSE 3222 (AUGUST 22, 1974)

1. SUMMARY: U.S. BANKER REPORTS ON SERIOUS FINANCIAL
CRISIS FACED BY LATIN AMERICAN BANK (LAB) AND GRUPO PROIN.
IMPORTANT MEETINGS OF LAB BOARD AND CREDITORS WILL BE HELD
IN NEW YORK ON MAY 18 AND 19 TO DEAL WITH CRISIS. BANKER IS
HOPEFUL THAT PROBLEMS CAN BE WORKED OUT. END SUMMARY.

2. RUMORS HAVE BEEN CIRCULATING IN SAN JOSE FOR THE PAST
TWO DAYS TO THE EFFECT THAT THE LATIN AMERICAN BANK, WHICH
IS ASSOCIATED WITH THE GRUPO PROIN HERE, IS IN FINANCIAL
DIFFICULTY. DCM WAS VISITED FRIDAY MORNING MAY 16 BY GARY
L. HOOVER AND PHILLIP FREEMAN, BOTH ASSISTANT VICE PRESIDENTS
OF THE AMERICAN FLETCHER NATIONAL BANK OF INDIANAPOLIS, INDIANA,
WHO PROVIDED US WITH THE FIRST HARD INFORMATION ON THIS
SUBJECT. HOOVER IS ALSO DIRECTOR OF THE LATIN AMERICAN BANK.

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PAGE 02 SAN JO 02006 162305Z

3. HOOVER REPORTED THAT HE IS REPRESENTING NOT ONLY HIS OWN BANK, WHICH UNTIL LAST FRIDAY HAD A ONE MILLION, TWO HUNDRED AND FIFTY THOUSAND DOLLAR SUBORDINATED CONVERTIBLE LOAN TO LAB, BUT ALSO THE HARTFORD BANK WHICH HAS A SIMILAR FIVE HUNDRED THOUSAND DOLLAR LOAN, AND THE FIDELITY UNION TRUST OF NEWARK WHICH IS A SHAREHOLDER IN LAB. ON BEHALF OF THESE INSTITUTIONS, HOOVER HAS BEEN ATTEMPTING TO GET TO THE BOTTOM OF LAB'S DIFFICULTIES WITH INQUIRIES BOTH HERE AND IN GRAND CAYMAN WHERE LAB IS REGISTERED. HOOVER REPORTED THAT THE THREE BANKS HE IS REPRESENTING AT PRESENT HOLD SOME 2.2 MILLION DOLLARS IN OVERDRAFTS TO LAB AS WELL AS SOME 3.5 MILLION DOLLARS IN "BOGUS" COLLATERAL. HE ALSO VOICED THE BANKS' DISSATISFACTION WITH THE FACT THAT LAB HAS AN EXPOSURE OF SOME NINETEEN MILLION DOLLARS IN LOANS TO MEMBER ORGANIZATIONS OF GRUPO PROIN OUT OF A TOTAL LOAN PORTFOLIO OF 26 MILLION DOLLARS. THIS APPROXIMATELY 75 PERCENT EXPOSURE CONFLICTS WITH A GUIDELINE OF 15 PERCENT WHICH THE BANKS HAD PREVIOUSLY LAID DOWN FOR LAB LOANS TO GRUPO PROIN.

4. IN LIGHT OF THE SITUATION, AMERICAN FLETCHER BANK LAST FRIDAY EXERCISED ITS RIGHTS TO BECOME A GENERAL CREDITOR OF LAB FOR THE AMOUNT OF ITS LOAN, THUS RELIEVING ITSELF OF SUBORDINATE DEBT STATUS WHILE GIVING UP ITS CONVERTIBLE RIGHTS.

5. NEVERTHELESS, HOOVER STATED THAT THE THREE BANKS FOR WHICH HE NOW SPEAKS ARE HOPEFUL AND DESIROUS OF WORKING THINGS OUT WITH LAB AND THE OTHER CREDITORS TO KEEP LAB AFLOAT AND TO CONTINUE A CONSTRUCTIVE RELATIONSHIP. HE BLAMED THE PRESENT AUDITORS, PANNELL, KERR AND FOSTER, WHO OPERATE OUT OF LONDON AND GRAND CAYMAN, FOR AN INADEQUATE PERFORMANCE IN NOT BRINGING LAB'S SHORTCOMINGS HOME TO COOPERATING US BANKS AND OTHER CREDITORS, AND EVEN LAB ITSELF AT A MUCH EARLIER STAGE. WHILE CLEARLY NOT SATISFIED WITH LAB PERFORMANCE, HOOVER WAS CAREFUL TO AVOID ANY SUGGESTION OF MALFEASANCE IN LAB.

6. ACCORDING TO HOOVER, THERE WILL BE CRITICAL MEETINGS TO DEAL WITH THE LAB CRISIS AT NEW YORK'S HILTON HOTEL, FIRST OF THE LAB BOARD ON MAY 18 AND THEN OF LAB CREDITORS LIMITED OFFICIAL USE

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PAGE 03 SAN JO 02006 162305Z

ON MAY 19. (HOOVER SAYS THAT EXIM BANK HAS BEEN NOTIFIED AND WILL PRESUMABLY ATTEND MONDAY MEETING.) IN ATTENDANCE WILL BE LAB CHAIRMAN, ARNOLDO RODRIGUEZ, WHO IS ONE OF THE PRINCIPAL

STOCKHOLDERS IN GRUPO PROIN, AND ROBERT BANKS, LAB PRESIDENT. HOOVER ALSO UNDERSTANDS THAT COSTA RICAN AMBASSADOR RODOLFO SILVA WILL REPRESENT THE GOCR WHICH IS SAID TO BE SERIOUSLY CONCERNED OVER THE ADVERSE IMPLICATIONS FOR COSTA

RICA'S IMAGE AND INVESTMENT

CLIMATE IF LAB -- AND GRUPO PROIN -- WERE TO FAIL. HOOVER UNDERSTANDS THAT THE GOCR AND CENTRAL BANK MAY BE CONSIDERING AN OFFER TO THE CREDITORS TO GUARANTEE OR UNDERWRITE LAB IN SOME WAY.

7. HOOVER REITERATED THAT THE BANKS HE REPRESENTS ARE HOPEFUL THAT A FAIR AND REASONABLE SOLUTION TO THIS CRISIS CAN BE FOUND. IF THAT IS ACCOMPLISHED, HE EXPECTS A MAJOR RESTRUCTURING OF BOTH LAB AND GRUPO PROIN. HOOVER ADDED THAT ARNOLDO RODRIGUEZ IS PLEDGING ALL HIS PERSONAL ASSETS TOWARDS THE REFINANCING OF LAB.

8. EMBASSY HEARD SUBSEQUENTLY THAT A REPRESENTATIVE OF CENTRAL BANK, RODRIGO CAMANO, WILL ALSO ATTEND MONDAY MEETING.
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